

VZCZCXRO3889

RR RUEHDIR RUEHIHL RUEHKUK

DE RUEHBC #0018 0731254

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R 131254Z MAR 08

FM REO BASRAH

TO RUEHGB/AMEMBASSY BAGHDAD 0268

RUEHC/SECSTATE WASHDC 0687

INFO RUCNIRA/IRAN COLLECTIVE

RUCNRAO/IRAQ COLLECTIVE

RUEHBC/REO BASRAH 0722

C O N F I D E N T I A L BASRAH 000018

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E.O. 12958: DECL: 3/13/2018

TAGS: [EPET](#) [ENRG](#) [ECON](#) [KCRM](#) [IZ](#)

SUBJECT: BASRAH REFINERY DIRECTOR ON OIL SMUGGLING AND SECURITY

REF: A) BAGHDAD O/I E-MAIL 01/17/2008 B) 07 BASRAH 0109

CLASSIFIED BY: Louis Bono, Regional Coordinator, Regional Embassy Office Basrah, Department of State.

REASON: 1.4 (b)

**¶11. (C) SUMMARY:** On February 27, REO met with Qasim Mohammed Ali Kadhim, Technical Director of the South Refinery Company, who said Basra refinery operations have returned to its pre-fire production levels at approximately 60 percent capacity or 90,000 barrels per day. According to Kadhim, smugglers have developed their own underground pipelines, connecting them to main lines to siphon oil without being detected. Kadhim described South Oil Company Director General Jabbar Ali Lua'abi as the industry's principal figure in the south, with broad influence among rival groups in and around Basrah; this view was shared by an international oil company source based in Bahrain. Despite reports of a strained relationship between Lua'abi and Minister of Oil Husayn Al-Shahristani, Kadhim said the two have a productive private relationship. END SUMMARY.

**¶12. (U) Regional Embassy Office Basrah (REO) met with Qasim Mohammed Ali Kadhim, Technical Director of the South Refinery Company, on February 27 to discuss Basra refinery operations following the January fire (Ref A), prospects for foreign investments, challenges facing the oil and gas sector, and his insights regarding key industry players. Kadhim has over twenty-five years of industry experience working in southern Iraq, 17 with South Oil Company and four years in his current position.**

**¶13. (C)** Kadhim said production at the Basra refinery dropped 20% following last month's fire. However, the refinery is now operating at approximately 60% capacity or 90,000 barrels per day. Based on his expertise, Kadhim claimed the fire was caused by a rocket or mortar attack, although official investigators have cited mechanical failure and a gas leak as the cause. Kadhim said the refinery has been attacked in the past which, combined with corroded equipment and lack of training, have contributed to declining productivity and storage capacity. As a result of existing inefficiencies, the country is flaring natural gas and placing refined oil byproducts back in the ground. Meanwhile, he said that Iraq is importing approximately 5,000 metric tons of LPG and 1.5 million liters of benzene per day. Kadhim hopes the proposed two-year technical service contracts recently proposed by the Oil Minister will help the industry address these issues.

**¶14. (C)** Kadhim believes the greatest challenge to the industry is infrastructure security. Depots, pipelines, and refineries continue to be victims of smuggling. According to Kadhim, smugglers have developed their own underground pipelines, connecting them to main lines to siphon oil without being detected. This smuggling scheme provides a continuous flow of crude that is hard to detect with metering devices. Kadhim added that, because the industry lacks meters or fails to use them properly (as is the case at the port of Umm Qasr), it is difficult to accurately gauge how much oil is lost to smugglers -- but he stressed that it is a huge amount.

¶5. (C) With his twenty-five years of experience, Kadhim said that he has a good understanding of both formal and informal industry relationships. He claims that South Oil Company (SOC) Director General Jabbar Ali Lua'abi is the oil and gas sector's principal figure in the south, adding that Lua'abi has influence over most industry players, politicians and militia groups in and around Basrah. Kadhim said Lua'abi is "a friend of all sides" and is viewed as a person who "gets things done." Despite public reports of a strained relationship between Lua'abi and Minister of Oil Husayn Al-Shahristani, Kadhim said the two have a very productive and cooperative private relationship. An international oil company contact of the REO, who meets with Lua'abi outside Iraq, also told us separately that Lua'abi is considered to be the central industry figure in the south.

¶6. (C) COMMENT: We found Kadhim approachable, knowledgeable and willing to talk. His description of relationships is at variance with that of Basrah Governor Mohammed Wa'eli. (Ref B) Wa'eli told us recently that Lua'abi is increasingly erratic, with wild mood swings; he claimed Shahristani and Lua'abi hate each other and that Lua'abi spends half the week in Dubai partly to avoid dealing with Shahristani. Wa'eli claims to be the real power behind Lua'abi, while Kadhim described the reverse. Wa'eli's claim that he can pull Lua'abi into the REO for a meeting has so far not panned out. We find Kadhim credible but need to meet with Lua'abi and others to get a fuller picture of oil relationships in the South.

HOWARD